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RUEKJCS/JOINT STAFF WASHDC//J-3/J-5//
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RUEHAK/USDAO ANKARA TU
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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 000172

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ANKARA PASS TO ADANA
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E.O. 12958: DECL: 01/29/2018
TAGS: [ENRG](#) [ECON](#) [EINV](#) [EPET](#) [IZ](#) [TU](#)
SUBJECT: TURKISH ELECTRICITY TO NORTHERN IRAQ: CONTRACT
AMENDMENT NEEDED TO TURN LIGHTS BACK ON

REF: A. ANKARA 15
[1](#)B. 07 ANKARA 2870
[1](#)C. 07 ISTANBUL 981

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Classified By: Economic Counselor Dale Eppler for reasons 1.4 b and d.

[1](#)1. (C) Turkish MFA Deputy Coordinator for Iraq Murat Ozcelik presented us with a two paragraph contract amendment on January 29 that he said was a "simple solution" to getting Turkish electricity supplies flowing again into Northern Iraq. The amendment needs to be signed by Kartet, the private Turkish company that owns and operates the Silopi power plant, and SOMO, the Iraqi oil company that provides fuel to the plant. The amendment would "legitimize" the oil import permit issued by the Turkish Ministry of Foreign Trade by putting the permit in the same name as the Kartet subsidiary that imports the oil. Kartet officials say they have no objections to the amendment, but were not sure if SOMO would agree to it as drafted, indicating that there are "differences" between SOMO and the Ministry of Electricity related to this contract. A copy of the proposed amendment was delivered via email to Embassy Baghdad on January 29. MFA said that they will start the process of issuing the import permit (estimated two or three days) as soon as they have the amendment signed by both parties. Kartet officials say that electricity would begin flowing again approximately four days after they receive the import permit, assuming sufficient quantities of fuel oil are delivered.

[1](#)2. (SBU) Background: The Kartet plant in Turkey provides electricity to northern Iraq using Iraqi heavy fuel oil. To operate, the plant needs (1) an oil export permit from SOMO, (2) an oil import permit from the Turkish Ministry of Foreign Trade, and (3) a letter of credit from the Trade Bank of Iraq. In 2007, negotiations over the permits extended into February, but Kartet had enough fuel oil stockpiled to keep the plant operating at low levels. This year, the plant's fuel stockpiles were very low at the end of the year, and the

plant shut down on January 2. The Iraqi government also was over 20 million dollars in arrears to Kartet at the end of the year, and MFA ordered Foreign Trade not to issue the import permit until the arrears were cleared. On January 17, Kartet officials met with Ozcelik and told him that they had received the oil export permit and letter of credit, and that the arrears issue had been dealt with (they planned to deduct the arrears from the new letter of credit). Ozcelik wrote to Foreign Trade on January 19, saying MFA lifted its hold on the oil import permit. On January 22, Foreign Trade raised the issue of the importing subsidiary being different from the parent company receiving the permit. Ozcelik asked Foreign Trade for proposals on how to resolve the issue. Ozcelik and Foreign Trade officials met on January 28 and agreed on the contract amendment as the best way forward.

13. (C) We asked why the subsidiary issue had only arisen now, while Kartet had been doing business via the subsidiary for three years without problem. Ozcelik said that the Kartet business arrangement is "exceptional," as the company imports fuel oil at far below market prices, and exports electricity at far below market prices. Foreign Trade officials are worried that unless the paperwork surrounding the deal is impeccable, they will be subject to corruption charges. In 2005, a year after Kartet signed its contract with the Iraqi government, Kartet set up a subsidiary to import the fuel oil. The subsidiary's name does not appear in Kartet's contract, nor on the import permit provided for under the contract, and Foreign Trade wants the name of the importer on the invoice to be the same as the permit holder to avoid legal challenges from other companies that want licenses for other, below-market-price deals. Ultimately, Ozcelik said, the GOT would like to see the Kartet-Iraqi trade conducted at market rates to avoid legal problems. In the short term, however, the political imperative is to get the power back on as quickly as possible.

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14. (SBU) Kartet officials confirmed to us January 30 that the subsidiary name issue will not affect the validity of the letter of credit already issued by the Trade Bank of Iraq. The letter of credit covers the sale of electricity to Iraq, and Kartet sells electricity in its own name.

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